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AUTHOR Walstad, William B.
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ABSTRACT

Results from the testing of a representative sample of U.S. high school students (N=8,205) reveals a significant lack of economic literacy, with the students correctly answering only 40 percent of the items on the Test of Economic Literacy. This is especially disturbing since the questions were drawn from economic concepts and related issues as they are discussed daily in the national media. To improve the level of economic understanding, school districts need to make a commitment to economic education in both elementary and secondary education, with students being required to take a course in economics before they graduate from high school. Teachers must be better equipped to teach about economics if they are to instill any knowledge in their students. Economics knowledge is critical for an informed citizenry, both for its understanding of domestic economic issues and for the United States to maintain a competitive position in the world economy. (PPB)

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William B. Walstad

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ECONOMIC LITERACY IN THE SCHOOLS

William B. Walstad[1]

(Release Date: December 28, 1988)

There is one major finding that I wish to present in my remarks today: our schools are producing a nation of economic illiterates! Now if you don't believe me, then just go out and ask high school students some questions on basic economics and see how they respond. That's the type of study that I conducted with Dr. John Soper of John Carroll University. My conclusion is based on that research and related work.

The Test of Economic Literacy

Here's how it was done. First, the Test of Economic Literacy, a standardized multiple choice test for eleventh and twelfth graders, was revised by a working committee of high school teachers and university professors. Then, each question was reviewed by a "blue-ribbon" national advisory committee that included Nobel laureate James Tobin, former AEA president William Baumol, bank president Karen Horn, and other top economists. Finally, the Test of Economic Literacy was administered by the National Center for Research in Economic Education at the University of Nebraska-Lincoln to a representative, national sample of 8,205 senior high school students.

The items in the test focus only on basic economic concepts as described in the Framework for Teaching Economics. This Joint Council publication was

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[1]Professor of economics and Director, National Center for Research in Economic Education, University of Nebraska-Lincoln. Remarks prepared for presentation at press colloquy on economic education at the American Economic Association meetings (December 28, 1988). Helpful comments were provided by Stephen Buckles, Michael MacDowell, James Marlin, Jack Middleton, Robert Strom, and Michael Watts.

written by a distinguished group of economists and educators and it outlines those essential ideas that should be included in the economics curriculum for our nation's schools. Using the Framework as the guide meant that the test measures knowledge of economic concepts and related issues that are discussed daily in the national media: tariffs and trade; economic growth and investment; inflation and unemployment; supply and demand, the federal budget deficit; and, the like. It is these economic topics that people are likely to read about or hear about in the news. I firmly believe that our high school students need to understand these ideas if they are to be able to function with any degree of economic literacy in roles as citizens, consumers, workers, or producers.

The Findings

What do the results show? Overall, typical high school students could correctly answer only 40 percent of the items. To put this in perspective, on a four-option multiple choice test we would expect a 25 percent correct score just by guessing. So typical high school students score only about 15 percentage points above a chance score on this test. Clearly, 40 percent correct represents a failing grade under even the most liberal grading standards. This level of economic knowledge among most high school students is shocking!

Students showed especially poor understanding of questions related to the national and the international economy - subjects often discussed in the news and in Congress. Senior high schoolers were correct only 34 percent of the time on the national economy questions and only 36 percent of the time on international economic questions. To illustrate, consider the following:

1) Only 25 percent could correctly answer questions on inflation;

2) Just 27 percent realized that an increase in U.S. tariffs would have an adverse effect on our international trade;

3) Only 30 percent recognized that increasing investment could stimulate economic growth;

4) Just 39 percent knew what the Gross National Product measures;

5) Just 45 percent recognized that a government budget deficit is produced when government spending exceeds tax revenues.

Student knowledge of the other areas - fundamental and microeconomic concepts - was only slightly better. On fundamental economic items students got 44 percent correct. On microeconomic items students scored 43 percent correct. The following performance on selected items indicate the extent of the economic illiteracy problem:

1) Only 27 percent could figure out the economic cost in a simple question about going to college;

2) Less than 30 percent recognized that a major cause of low incomes in the United States was lack of labor market skills;

3) Just 34 percent knew the definition of profits;

4) Just 47 percent knew the reason for a progressive income tax; and,

5) Just half understood that high wages usually depends on worker productivity.

Solutions

Well, we know what the problem is, but can anything be done to improve the level of economic understanding? The extensive body of research that has accumulated over the years indicates that three actions need to be taken to reduce the level of economic illiteracy in our schools.

First, school districts need to make a commitment to economic education from the elementary grades through high school. Instruction in reading, math, and science starts at an early age, and so should the vital subject of economics. Many research studies show that students do better in school districts where there is an established economics curriculum for all students across all grade levels. Currently, 28 states have made this commitment and require that economics be included in some form in the school curriculum.

Second, students should take a course in economics before they graduate from high school. Numerous research studies show that if students take a separate economics course in senior high school, this course is one sure way to improve economic understanding. All too often economics is simply left out of the list of required subjects in recent calls for educational reform. Our schools provide separate courses to make certain that kids learn math and science. The same will be necessary for economics. To date only 15 states in the U.S. have a mandate for students to take a course in economics before high school graduation.

Third, and the most critical, is to have teachers who are well-prepared to teach economics, whether they teach it as a separate course or include it in other subjects. Economics is a challenging subject and it must be taught well for students to improve their understanding. Teachers must know more economics than the students. In fact, teachers might be more willing to teach about the national and international economy if they had more knowledge of these areas. National research studies show that there is a direct link between the number of courses in economics a teacher has taken (or teacher knowledge of the subject) and the amount of economics that students learn. This means that if teachers understand the subject, then they are more likely to do a better job of teaching it.

Implications

Our nation cannot afford to have high school students who lack the basic skills to understand vital economic issues. Most high school graduates never go to college and even those who attend college may never take a course in economics. Without a solid education in economics at the pre-college level, many adults will never have the slightest chance of learning how the economy functions and their roles in the wealth-creating process. No wonder a national survey by the Hearst corporation concluded that "a large segment of the American public is sadly deficient in its knowledge of basic business and economic facts of life." The short- and long-term costs from economic illiteracy and poor economic decision-making are too great to be ignored by this nation.

Economic knowledge is also critical for maintaining a competitive position in a world economy. Japan clearly recognizes this relationship. All high school students in Japan are required to take economics. The coursework is more intensive than in the U.S. and focuses more on national and international economics - the very areas where U.S. students do the worse and which are not stressed in our school curriculum. Our next generation of voters, consumers, producers, and investors will need a better economic education than past generations if they are to be prepared for the challenges of competition in a world economy. To do so, we must take the actions that are needed to correct this failing grade in economics.